

July 1, 2014

JANE MOORES  
Assistant Vice Chancellor  
Technology Transfer Office  
0910

***Subject: Technology Transfer Office  
Audit & Management Advisory Services Project 2014-04***

The final audit report for Technology Transfer Office, Audit Report 2014-04, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them at the conclusion of the audit. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier  
Director  
Audit & Management Advisory Services

Attachment

cc: W. Athing  
D. Barber  
S. Brown  
J. Bruner  
M. Generales  
D. Rico  
S. Subramani  
S. Vacca

# UC San Diego

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## AUDIT & MANAGEMENT ADVISORY SERVICES

Technology Transfer Office  
June 2014

**Performed By:**

Jon Mendoza, Auditor  
Greg Buchanan, Manager

**Approved By:**

David Meier, Director

Project Number: 2014-04

*Technology Transfer Office  
Audit & Management Advisory Services Project 2014-04*

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**Technology Transfer Office**  
**Audit & Management Advisory Services Project 2014-04**

**I. Background**

Audit & Management Advisory Services (AMAS) has completed a review of the Technology Transfer Office as part of the approved audit plan for Fiscal Year 2013-14. This report summarizes the results of our review.

The Technology Transfer Office (TTO) is responsible for promoting and facilitating the transfer of UC innovations for the benefit of the University community and the public. This entails the recognition and disclosure of inventions developed by UC personnel, obtaining legal protections for such inventions through patents or copyright, and providing a means to commercially license these inventions. TTO manages more than 400 active licensing agreements (including patent and copyright licenses), and its revenues have consistently been well over ten million dollars in each of the past 10 years. TTO also oversees the legal firms hired to oversee UCSD's patent interests, and pays these firms for their services. Legal costs associated with patents that are licensed are re-billed to the licensee. Otherwise, legal costs are funded by TTO, and are accounted for as a line item in the TTO budget.

TTO's licensing activities are performed by a team of 12 licensing personnel, specializing in fields of study related to the different types of inventions. The licensing personnel work with patent attorneys in order to determine the viability of the cases that TTO undertakes. Cases are tracked in an enterprise software suite called Patent Tracking System-New User Interface (PTS-NUI), which is a centralized software solution utilized across all UC campuses. UCSD is unique in that it is the only UC campus whose technology transfer office performs its own accounting for patent and copyright revenues and expenses. Other campuses rely on UCOP to perform the accounting function and are recharged for these services.

The majority of TTO's activities are self-supporting. The following table summarizes TTO's financial activity for Fiscal Year 2012-13:

<u>Income</u>	
Licensee income	\$23.0 M
Legal Cost Reimbursements	3.6 M
Total Income	<u>26.6 M</u>
<u>Distributions</u>	
Expenses <sup>1</sup>	12.8 M
Inventor Distributions <sup>2</sup>	8.5 M
Total Distributions	<u>21.3 M</u>
Net Available for Distribution to Inventors in November 2013	<u>5.3 M</u>

<sup>1</sup> Expenses include patent prosecution costs (\$5.3M) (not accounting for reimbursements), TTO operating costs (\$3.6M), UCSD and UCOP administrative charges (\$0.3M), and UCSD general fund payments (\$3.6M).

<sup>2</sup> Of the total amount distributed, \$6.2 million was to inventors or authors, \$0.4 million was to joint titleholders, and \$1.9 million was to research labs or departments.

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**II. Audit Objective, Scope, and Procedures**

The objective of our review was to evaluate the effectiveness of the department's fiscal operations, including oversight over income streams from intellectual property. The scope of this review was limited to activities and business practices for the Fiscal Year ended June 30, 2013, and for the period July 1, 2013 through April 30, 2014.

In order to achieve our objectives we completed the following:

- Reviewed UCOP and UCSD policies relating to patent and copyright policy, including the percentages and process for distributing income;
- Reviewed prior audit reports and investigations pertaining to TTO;
- Reviewed internal control questionnaires prepared by TTO;
- Performed walkthroughs of major fiscal processes with TTO personnel, with AMAS' understanding documented in a process narrative;
- Reviewed account balances in the TTO operating ledger, including reviewing transactions sampled;
- Identified possible risks and mitigating controls; and
- Performed audit testing over identified controls to determine operating effectiveness.

The Office of the Vice Chancellor for Research is responsible for TTO timekeeping and payroll processes. As such, TTO timekeeping and payroll processes were excluded from the scope of this review.

**III. Conclusion**

We concluded that TTO's controls was adequate to provide reasonable assurance that fiscal operations, including oversight for income streams from licensing, were effective and compliant with University policies. Further details over the various processes tested and a summary of test results are documented in Attachment A.

**Technology Transfer Office  
 Audit Results by Business Office Functional Process  
 Audit & Management Advisory Services Project 2014-04**

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion <sup>1</sup>	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Licensee Income	√	√	√	- Reviewed 10 licensee agreements to evaluate whether selected contract terms were being appropriately accounted for in PTS-NUI.  - Recalculated and traced 20 judgmentally selected inventor share payments (including 10 greater than \$100,000) from disbursement back to the respective case.	Yes	Satisfactory	Controls over licensee income appeared effective.

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<sup>1</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion <sup>1</sup>	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Legal Expenditures	√	√	√	<ul style="list-style-type: none"> <li>- Reviewed a sample of 10 legal expenses for appropriateness, and to ensure that they were appropriately rebilled to licensees.</li> <li>- Verified that approval process is in place over use of patent attorneys.</li> <li>- Verified PTS-NUI system prompts for possible invoice processing errors.</li> </ul>	Yes	Satisfactory	Controls over legal expenditures appeared effective.
Express card administration	√	√	√	<ul style="list-style-type: none"> <li>- Analyzed express card transaction volume for most recent fiscal year.</li> <li>- Reviewed supporting documentation for a sample of 10 judgmentally selected express card transactions.</li> </ul>	Yes	Satisfactory	Controls over TTO's business office processes appeared effective.

<sup>1</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion <sup>1</sup>	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Travel	√	√	√	Reviewed 10 trips totaling \$10,545; traced to supporting documents, ensured appropriate approval and reasonable business justification.	Yes	Satisfactory	Controls over TTO's business office processes appeared effective.
Non-Payroll Expenditures	√	√	√	- Examined operating ledgers for non-payroll expenditure activity. With the exception of travel and express card transactions, activity appeared minimal and low risk.	Yes	Satisfactory	Controls over non-payroll transactions appeared reasonable.
Non-Payroll Expenditure Transfers	√	√		- Examined operating ledgers for transfer activity. Activity appeared minimal and low risk.	Yes	Satisfactory	Controls over non-payroll transactions appeared reasonable.

<sup>1</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion <sup>1</sup>	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Equipment Management	√	√		- Examined operating ledgers for equipment purchasing activity. Activity appeared minimal and low risk.	Yes	Satisfactory	Controls over equipment management appeared reasonable.
Cash Controls	√	√	√	- Reviewed check logs for five judgmentally selected weeks and agreed total checks received to PTS-NUI, IFIS, and to receipts provided by the Central Cashier.	Yes	Satisfactory	Cash controls appeared effective.
Operating Ledger Review & Financial Reporting	√	√	√	- Reviewed TTO's transaction sampling process as of the most recent fiscal close. - TTO operates PTS-NUI and IFIS in parallel for all processes, and review and reconciliation was considered within each process.	Yes	Satisfactory	Controls over ledger review and financial reporting appeared effective.

<sup>1</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory